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ANNUAL REPORT 1975



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ANNUAL MEETING



The Annual and General Meeting of Shareholders will be held at 10:00 o'clock a.m. (Toronto time) on Friday, April 23rd, 1976, in the Upper Canada Room, Royal York Hotel, Toronto, Ontario.

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Capital Stock

Authorized: 3,000,000 shares without par value

Issued: 2,434,482 shares

Location of Mines

McIntyre Coal Mines, Smoky River, Alberta

The Madeleine Mine, Ste. Anne des Monts, Quebec

Executive and Head Office

Suite 5100 Commerce Court West

Toronto, Ontario M5L 1C1

Auditors

Price Waterhouse & Co.

Chartered Accountants, Toronto, Ontario

Transfer Agents

Canada Permanent Trust Company, Toronto, Ontario
and Calgary, Alberta

Bankers Trust Company, New York, N.Y.

Registrars

Crown Trust Company, Toronto, Ontario and Calgary, Alberta

The Chase Manhattan Bank (National Association), New York, N.Y.

Stock Exchanges

The stock of the Company is listed for trading on the Toronto
Stock Exchange, the New York Stock Exchange and the
Chicago Board of Trade.

Directors

*M. A. COOPER Toronto, Ontario	<i>President and Managing Director Falconbridge Nickel Mines Limited</i>
†*A. E. FELDMEYER Calgary, Alberta	<i>President and Managing Director Canadian Superior Oil Ltd.</i>
†*R. B. FULTON Toronto, Ontario	<i>President and Chief Executive Officer of the Company</i>
H. M. GRIFFITH Toronto, Ontario	<i>Chairman of the Board The Steel Company of Canada Limited</i>
*H. B. KECK Houston, Texas	<i>President The Superior Oil Company</i>
W. M. KECK, JR. Los Angeles, California	<i>Director The Superior Oil Company</i>
SENATOR THE HON. E. C. MANNING, P.C., C.C., LL.D. Edmonton, Alberta	<i>President M & M Systems Research Ltd.</i>
J. L. NORMAN Houston, Texas	<i>Senior Vice-President The Superior Oil Company</i>
†*L. T. POSTLE Vancouver, B.C.	<i>Consulting Engineer</i>

* Member of the Executive Committee

† Member of the Audit Committee

Officers

M. A. COOPER, *Chairman of the Board*
 R. B. FULTON, *President and Chief Executive Officer*
 P. A. CAIN, *Vice-President Operations*
 F. T. MCKINNEY, *Corporate Secretary*
 A. G. GOODEVE, *Treasurer*
 D. G. PAGE, *Comptroller and Assistant Treasurer*

Operations

Coal Division K. G. DONALD, *General Manager, Grande Cache, Alberta*

Madeleine Mine G. B. DARLING, *General Manager, Ste. Anne des Monts, Quebec*

Exploration P. A. LINDBERG, *Exploration Manager, Toronto, Ontario*

DIRECTORS' REPORT

To the Shareholders:

Earnings from the Company's operations before deferred income taxes during 1975 totalled \$18,817,000 which compares with the prior year's earnings of \$5,873,000. The Smoky River Coal Division earned \$19,870,000 and dividends from Falconbridge and Madeleine totalled \$2,277,000. Corporate expenses including exploration and administration costs totalled \$3,250,000. For 1974 Coal Division earnings were \$2,664,000, dividends from affiliates totalled \$5,324,000 and corporate expenses were \$2,282,000.

McIntyre's consolidated earnings for 1975 including its equity (reduction) in the undistributed earnings of its affiliates, Falconbridge Nickel Mines Limited and Madeleine Mines Ltd., were \$17,538,000 or \$7.40 per share. Comparable figures for 1974 were \$12,318,000 or \$5.20 per share.

The Company's bank loan at December 31, 1975 was \$40,203,000, a reduction of \$22,120,000 from the 1974 year-end loan of \$62,323,000. This reflects the application of Coal Sales Contract advances totalling \$18,050,000 received during the first quarter of 1975 as well as other available cash during the year to loan repayment. The amount of contract advances unrepaid at December 31, 1975 was \$12,659,000, \$5,430,000 of which is scheduled to be repaid during 1976 and has been taken into the accounts as a current liability. Working capital at the end of 1975 showed a deficit of \$3,656,000 compared with a positive figure of \$13,690,000 at the prior year's end, reflecting the above stated disposition of the contract advances.

Dividend payments were resumed during the last half of 1975 at the rate of twenty-five cents per quarter.

Smoky River Coal Division

Coal production improved during 1975 totalling 2,588,309 and 1,680,068 long raw and long clean tons, respectively, equivalent to 84% of target. Comparable figures for 1974 were 2,358,357 long raw and

1,528,268 long clean tons, and for 1972, the best previous year, 2,432,376 and 1,565,720 long tons. Raw coal production by mine units during 1975 and 1974 are tabulated below:

	(In Long Tons)	
	1975	1974
Underground Mines		
No. 2 and 2A-4 seam	508,603	746,420
No. 2 — 11 seam	271,255	
Surface Mines		
No. 8 Mine	72,990	720,478
No. 9 Mine	1,735,461	891,459

Plant yield of clean coal also improved somewhat, from an average of 64.8% during 1974 to 67% in 1975.

Production costs increased markedly during the final two quarters of 1975 as the result of progressively higher overburden to coal stripping ratios at No. 9 Mine. The ratio at year's end was approximately equivalent to the overall average for the recoverable coal reserves at this property and a levelling off of these costs during the current year is expected. The breaker station and conveyor system for the crushing and conveyance of No. 9 mine coal to the preparation plant were completed and placed in operation at mid-year; however, floor heaving in sections of the underground portion of the beltway caused a suspension of its operation during December 1975 pending rehabilitation work which will require several months to complete. Mining of the remaining coal reserves in the Barrett Unit of No. 8 Mine began under contract during the final quarter. Construction of a dewatering facility for tailings produced by the preparation plant commenced under contract at approximately the same time. During December rail shipments to Neptune Terminals were frequently interrupted and delayed as a result of snow and rock slides onto the railroad and the necessity of routing Canadian National's trains over Canadian Pacific trackage due to serious damage to the CN main line bridge across the Fraser River near New Westminster, B.C.

revenues 26,550,000 vs 13,300,000.
- reduction in tonnage
- ship fuel 1.5 m to Japan and price held up

As a means of easing the housing shortage in Grande Cache the Company undertook during the year a new home purchase assistance program for its employees. Under this program they may contract with private builders for newly constructed houses with the aid of loans and guarantees provided by the Company.

Capital expenditures during the past year totalled \$15,972,000. These include the cost of completing the maintenance shop facilities and additional mining and haulage units for overburden removal at No. 9 Mine, as well as the purchase of two new continuous miners and ancillary equipment for the underground mines. Additional capital outlays totalling \$22.5 million are budgeted for completion of the dewatering plant, the purchase of replacement and additional overburden removal equipment at No. 9 Mine, the purchase of three replacement continuous miners for the underground operations, and the development of the Reiff Terrace underground mine to replace production from No. 2 — 4 Seam Mine, which will be closed with the exhaustion of its coal reserves in mid-1976.

During 1975 all contractually scheduled coal deliveries were completed. Coal sales and deliveries during the current year are expected to be at about the same tonnage and price levels as last year, although present contractual commitments are some 160,000 net tons less than at this time last year. Good sales prospects for Smoky River coal exist in the Great Lakes and South American markets however, and these are being thoroughly investigated.

Falconbridge Nickel Mines Limited (37.3% equity interest)

The consolidated earnings of Falconbridge and its subsidiaries for the 1975 fiscal period were \$3,221,000 or 65 cents per share after providing \$8,078,000 for income and mining taxes. In the corresponding period of 1974, the restated earnings were \$29,976,000 or \$6.05 per share after providing \$33,954,000 for income and mining taxes.

The increased revenues from higher prices received from nickel and cobalt sales were more than offset by the combined effect of lower nickel deliveries by the Falconbridge companies, reduced copper and precious metal prices and higher production costs. Nickel and copper deliveries of the Integrated Nickel Operations were lower by 31 percent and 25 percent respectively than those of 1974.

Madeleine Mines Ltd. (36.4% equity interest)

Madeleine Mines had earnings of \$315,000 during 1975 compared with \$2,502,000 for the prior year. Substantially lower copper prices prevailed during the past year compared with those for 1974, accounting for the sharp drop in earnings. Ore tonnage milled during 1975 totalled 908,225 from which 19,354,616 pounds of copper and 179,034 ounces of silver were recovered. Comparable figures for 1974 were 804,390 tons milled, 19,113,819 pounds of copper and 176,052 ounces of silver produced. Ore reserves at year-end 1975 were 3,379,270 tons having an average grade of 1.03% copper compared with 3,866,000 tons at 1.06% copper as at December 31, 1974.

Exploration

Expenditures on exploration projects during 1975 totalled \$1,980,000 compared with \$1,242,000 in 1974. Work was carried on in areas in the Yukon Territory, Northern Ontario, the Madeleine Mine, Gaspe, Quebec, and Nevada, where preliminary investigations were made during 1974. McIntyre also joined a group of companies in a large exploration program in Alaska.

In the Bonnet Plume Lake region of the Yukon several showings of zinc-lead mineralization situated in both Precambrian carbonate rocks and Paleozoic shales were core-drilled. The occurrences in carbonate rocks which were tested proved to be of limited extent but additional work on other showings appears to be

warranted. At Madeleine two prospective showings were geophysically surveyed and drilled with negative results. Further work on other prospects in the vicinity of the Mine is planned this year.

In Alaska agreement was reached by a group of four U.S. resource companies and McIntyre with Doyon Limited, a native land company under which exploration for minerals other than hydrocarbons will be carried out by the group during 1976 on large prospective blocks of land held by Doyon situated in central and east-central Alaska. The agreement also provides for the issuance of mining leases by Doyon to the group on lands designated by the latter for development and production.

On February 1st, 1976, Mr. Paul A. Lindberg joined the Company's staff as Exploration Manager. Mr. Lindberg brings many years of exploration experience in Canada and the United States to McIntyre's exploration effort.

Corporate

Mr. Harold M. Griffith, Chairman of the Executive Committee of The Steel Company of Canada, Limited, was elected a director of the Company at the meeting of Shareholders on April 25, 1975. The authorized membership of the Board of Directors was reduced at that meeting from eleven to nine and Mr. N. F. W. H. D'Arcy and Mr. J. K. Godin did not stand for re-

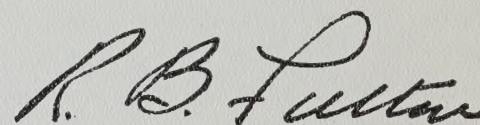
election. Mr. D'Arcy was elected a director in 1956 and Mr. Godin in 1967 and their long and valuable services to the Company are gratefully acknowledged.

Outlook

The Company's earnings during 1976 are expected to be similar to those of 1975. Coal Division production is targeted at 1,800,000 long tons of metallurgical coal and no significant change in its selling price from that for 1975 is anticipated. The operations at Madeleine Mines are also expected to produce about the same results this year to those of 1975, barring an unforeseen improvement in U.S. and/or world copper prices.

The Directors and Officers express their appreciation to the Company's employees for their efforts during the past year.

By Order of the Board of Directors



President and Chief Executive Officer

Toronto, March 5, 1976.

AUDITORS' REPORT



Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

March 1, 1976

To the Shareholders of
McIntyre Mines Limited:

We have examined the consolidated balance sheet of McIntyre Mines Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, reinvested earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The investment in Falconbridge Nickel Mines Limited has been accounted for on the equity basis, and we have relied on the report of the auditors who have examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads "Price Waterhouse & Co.".

Chartered Accountants



AND SUBSIDIARY COMPANIES

(Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET

(\$000's omitted)

Assets

	DECEMBER 31	
	1975	1974
Current		
Cash	\$ —	\$ 647
Accounts receivable (Note 2)	3,378	1,839
Inventories and mine supplies (Note 3)	12,789	6,949
Coal sales contract advances receivable	—	18,050
	<u>16,167</u>	<u>27,485</u>
Investments (Note 4)		
Falconbridge Nickel Mines Limited	111,947	112,552
Madeleine Mines Ltd.	4,197	4,838
Other at cost	350	355
	<u>116,494</u>	<u>117,745</u>
Properties and Plant		
Plant and equipment at cost (Note 5)	57,066	44,446
Less accumulated depreciation	15,942	11,503
	<u>41,124</u>	<u>32,943</u>
Deferred mine development less amortization (Note 6)	37,836	38,105
	<u>78,960</u>	<u>71,048</u>
Other		
Long-term account receivable	3,717	4,031
Employee housing loans (Note 11)	2,371	2,325
	<u>6,088</u>	<u>6,356</u>
	<u>\$ 217,709</u>	<u>\$ 222,634</u>

Liabilities

	DECEMBER 31	
	1975	1974
Current		
Accounts payable and accrued liabilities	\$ 14,393	\$ 8,161
Current portion of coal sales contract advances	5,430	5,634
	<u>19,823</u>	<u>13,795</u>
Coal Sales Contract Advances , less current portion (Note 7)	<u>7,229</u>	<u>12,416</u>
Long-Term		
Bank loan repayable by September 30, 1977	<u>40,203</u>	<u>62,323</u>
Shareholders' Equity		
Capital stock (Note 12)		
Authorized — 3,000,000 shares without par value		
Issued — 2,434,482 shares	9,604	9,604
Reinvested earnings	144,645	128,291
	<u>154,249</u>	<u>137,895</u>
Less equity in own shares held by affiliate	3,795	3,795
	<u>150,454</u>	<u>134,100</u>

Approved by the Board:

R. B. FULTON, Director.

A. E. FELDMEYER, Director.

<u>\$ 217,709</u>	<u>\$ 222,634</u>
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CONSOLIDATED EARNINGS

(\$000's omitted)

	YEAR ENDED DECEMBER 31	
	1975	1974
Revenue		
Coal production	\$ 95,736	\$ 48,093
Dividends from affiliates	2,277	5,324
Other revenue	—	273
	<u>98,013</u>	<u>53,690</u>
Expense		
Operating costs	64,682	35,412
Administration	1,270	1,040
Exploration	1,980	1,242
Interest (Note 8)	3,778	5,631
Depreciation	4,493	3,462
Amortization of deferred development	2,993	1,030
	<u>79,196</u>	<u>47,817</u>
Earnings from operations before deferred income taxes	<u>18,817</u>	<u>5,873</u>
Deferred income taxes	6,029	—
Earnings from operations	<u>12,788</u>	<u>5,873</u>
Equity (reduction) in undistributed earnings of affiliates	(1,279)	6,445*
Earnings before extraordinary item	<u>11,509</u>	<u>12,318</u>
Reduction in deferred income taxes arising from prior years' losses	6,029	—
Consolidated Earnings	<u>\$ 17,538</u>	<u>\$ 12,318</u>
Per share (Note 10)		
Earnings before extraordinary item	\$ 4.86	\$ 5.20
Extraordinary item	\$ 2.54	—
Consolidated earnings	\$ 7.40	\$ 5.20

* 1974 figure restated to reflect retroactive adjustment to earnings of Falconbridge Nickel Mines Limited.

CONSOLIDATED REINVESTED EARNINGS

(\$000's omitted)

	YEAR ENDED DECEMBER 31	
	1975	1974
Balance at beginning of year		
As previously reported	\$ 125,307	\$ 115,973
Retroactive adjustment to earnings of affiliated company	2,984	—
As restated	<u>128,291</u>	<u>115,973</u>
Consolidated earnings for year	<u>17,538</u>	<u>12,318</u>
	<u>145,829</u>	<u>128,291</u>
Dividends (50¢ per share — Note 10)	<u>1,184</u>	<u>—</u>
Balance at end of year	<u>\$ 144,645</u>	<u>\$ 128,291</u>

CONSOLIDATED SOURCE AND USE OF FUNDS

(\$000's omitted)

Source of Funds	YEAR ENDED DECEMBER 31	
	1975	1974
Operations —		
Consolidated earnings	\$ 17,538	\$ 12,318
Depreciation and amortization	7,486	4,492
Reduction (equity) in undistributed earnings of affiliates ..	1,279	(6,445)
	<u>26,303</u>	<u>10,365</u>
Disposal of properties and other assets	579	758
Long-term receivable	314	266
Bank financing	—	3,448
Coal sales contract advances	—	12,416
	<u>27,196</u>	<u>27,253</u>
Use of Funds		
Properties and plant	15,972	15,404
Reduction of bank and note financing	22,120	528
Reduction of coal sales contract advances	5,187	—
Dividends paid to shareholders	1,184	—
Dividends paid on own shares held by affiliate (Note 10)	33	—
Employee housing loans	46	745
	<u>44,542</u>	<u>16,677</u>
(Decrease) increase in working capital	<u>\$ (17,346)</u>	<u>\$ 10,576</u>
Working Capital Changes		
Increase (decrease) in current assets		
Cash	\$ (647)	32
Accounts receivable	1,539	(3,023)
Inventories and mine supplies	5,840	1,506
Coal sales contract advances receivable	(18,050)	18,050
	<u>(11,318)</u>	<u>16,565</u>
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	6,232	355
Current portion of coal sales contract advances	(204)	5,634
	<u>6,028</u>	<u>5,989</u>
(Decrease) increase in working capital	<u>(17,346)</u>	<u>10,576</u>
Working capital — beginning of year	<u>13,690</u>	<u>3,114</u>
Working capital (deficiency) — end of year	<u>\$ (3,656)</u>	<u>\$ 13,690</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of all companies which are more than 50% owned. The assets and earnings of these companies are not significant and aggregate less than 2% of the consolidated total.

Investments in affiliated companies Falconbridge Nickel Mines Limited (37.3% equity interest) and Madeleine Mines Ltd. (36.4% equity interest) are accounted for by the equity method which reflects the Company's investment at cost plus its interest in reinvested earnings less amortization of the excess of cost over book value at date of acquisition. Such excess cost is amortized over the estimated life of the mining properties or such shorter period as may be considered reasonable.

(b) Inventories

Mine products are valued at net realizable value and other inventories at the lower of standard cost (which approximates cost on a FIFO basis) and net realizable value.

(c) Depreciation and amortization

- (i) Plant and equipment are being depreciated on a straight-line basis over their productive lives, or in the case of each mining property to which they are appurtenances, over the productive life of the mine in terms of proven ore or coal reserves, whichever is less.
- (ii) Maintenance, repairs and renewals expenditures are included as charges to income with the exception of those expenditures which may properly be deferred to future operations. Betterments are capitalized and included as additions to fixed assets.
- (iii) Gains or losses on the sale or retirement of material items are taken into earnings. Gains or losses on other items are recorded as an adjustment of accumulated depreciation in accordance with McIntyre's group depreciation policy.
- (iv) Development and preproduction expenditures
Expenditures relating to each mine are capitalized until the property is brought into production at or near its designed rate at which time they are amortized on a unit of production basis over the life of the mine in terms of proven reserves. The initial costs of the Smoky River Coal Division including infrastructure and start-up expenses are being amortized on a unit of production basis over the estimated life of total proven coal reserves.

(d) Exploration

Exploration costs are charged to earnings when incurred.

(e) Interest

Interest is charged against earnings as incurred except interest on debt that can be specifically identified with a major capital project. In these circumstances interest is capitalized prior to commencement of production.

(f) Income taxes

The Company follows the tax allocation method of accounting whereby timing differences between reported and taxable income result in deferred taxes. Income taxes recoverable on losses are not recognized until realized.

(g) Pensions

Current service costs are a current charge against earnings. Past service costs are amortized and funded over periods not exceeding fifteen years.

2. Accounts Receivable

These are as follows:

	(\$000's omitted)	
	1975	1974
Coal settlements receivable	\$ 1,988	\$ 591
Other receivables	1,390	1,248
	<u>\$ 3,378</u>	<u>\$ 1,839</u>

3. Inventories and Mine Supplies

These are as follows:

	(\$000's omitted)	
	1975	1974
Specification grade metallurgical coking coal	\$ 7,117	\$ 2,744
Mine supplies	5,438	3,967
Houses for sale to employees less mortgages thereon	234	238
	<u>\$ 12,789</u>	<u>\$ 6,949</u>

4. Investments

Changes in the Company's investment in affiliated companies, accounted for by the equity method, are as follows:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1975	1974	1975	1974
Investment — beginning of year				
As previously reported	\$ 109,568	\$ 105,068	\$ 4,838	\$ 5,877
Retroactive adjustment to earnings of affiliated company	2,984			
As restated	112,552			
Equity (reduction) in earnings not distributed .	(605)	7,484	(314)	(716)
Amortization of excess cost	—	—	(327)	(323)
Investment — end of year	<u>\$ 111,947</u>	<u>\$ 112,552</u>	<u>\$ 4,197</u>	<u>\$ 4,838</u>
Shares held	1,848,414	1,848,414	1,712,208	1,712,208
Market value at December 31	\$ 53,604	\$ 44,824	\$ 2,568	\$ 3,681

At December 31, 1975 the unamortized excess cost relating to the investment in Madeleine was \$1,243,000.

Summarized financial information for these two companies is presented below:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1975	1974	1975	1974
Current assets	\$ 263,034	\$ 282,750	\$ 5,017	\$ 5,137
Other assets	500,065	491,186	3,889	5,647
	<u>763,099</u>	<u>773,936</u>	<u>8,906</u>	<u>10,784</u>
Current liabilities	94,596	84,141	568	1,405
Long-term liabilities	358,203	377,872	220	400
Shareholders' equity	310,300	311,923	8,118	8,979
	<u>763,099</u>	<u>773,936</u>	<u>8,906</u>	<u>10,784</u>
Earnings	\$ 3,221	\$ 29,976	\$ 315	\$ 2,502
Dividends paid	\$ 4,959	\$ 9,911	\$ 1,176	\$ 4,471

5. Plant and Equipment

Plant and equipment at cost are as follows:

	(\$000's omitted)	
	1975	1974
Smoky River Coal Division		
Underground equipment	\$ 13,933	\$ 12,433
Surface plant and equipment	42,470	31,327
	<u>56,403</u>	<u>43,760</u>
Other	663	686
	<u>57,066</u>	<u>44,446</u>
Less accumulated depreciation	15,942	11,503
	<u>\$ 41,124</u>	<u>\$ 32,943</u>

6. Deferred Mine Development

Unamortized mine development costs are as follows:

	(\$000's omitted)	
	1975	1974
Smoky River Coal Division		
Producing properties	\$ 16,861	\$ 16,123
Non-producing properties	6,270	5,408
Initial costs, including infrastructure and start-up expenses	14,705	16,574
	<u>\$ 37,836</u>	<u>\$ 38,105</u>

In 1975, proceeds of \$574,000 in settlement of a claim for unsatisfactory equipment has been credited to the initial costs as a reduction of the original cost.

7. Coal Sales Contract Advances

McIntyre has entered into the following coal sales contract delivery commitments for yearly periods commencing April 1, 1976.

Buyer	Term of Contract	Annual Tonnage	Coal Sales Contract Advances
Japanese Buyers	2 years	1,500,000 long tons	\$12,659,000
Steel Company of Canada Limited	1 year	100,000 short tons	—
Sydney Steel Corporation	1 year	40,000 short tons	—
Dominion Foundries and Steel, Limited ...	1 year	50,000 short tons	—
			<hr/> \$12,659,000 <hr/>

The contract price of the coal is established annually on April 1st at the equivalent to the U.S. producer price and is subject to further adjustment for subsequent changes in McIntyre's coal production and delivery costs. The Coal sales contract advances from the Japanese Buyers are being repaid over the term of the contracts as coal deliveries are made.

8. Interest

Interest capitalized during the year amounted to \$765,000 (1974 \$1,326,000).

9. Income Taxes

At December 31, 1975 accumulated charges to earnings which have not yet been claimed for tax purposes amounted to approximately \$2,000,000 and are available to reduce future taxable income.

10. Earnings Per Share and Dividends Paid

In calculating earnings per share and dividends paid the total issued shares have been reduced by 65,583 shares being McIntyre's proportion of its own shares held by an affiliated company.

Exercise of the share options outstanding would not affect to any extent the earnings per share for the year ended December 31, 1975.

11. Commitments and Contingencies

(i) The Company has guaranteed mortgages amounting to \$9,870,000 at December 31, 1975 in respect of employee housing in Grande Cache. In addition the Company has provided \$2,371,000 of interest free loans to employees to assist them in the purchase of these houses, of which \$307,000 is subject to forgiveness at the rate of 10% per year commencing in 1976 so long as the purchasers remain employees of the Company.

(ii) A long term lease agreement for the supply of unit-train rail cars for the transportation of coal provides for minimum rental charges of \$1,104,000 per year.

(iii) Certain open-pit mining equipment required for the operation of No. 9 Mine has been leased under a long-term agreement at an annual rental of \$1,009,846. At December 31, 1975 the total rentals remaining to be paid over the term of this agreement amounted to \$7,387,536.

(iv) The Company is obligated to pay approximately \$500,000 for the balance of purchase of shares of a subsidiary company (78.2% owned) in the event the subsidiary secures a contract for the sale of coal from its property.

(v) At December 31, 1975 budgeted capital expenditures for plant and equipment additions and replacement and new mine development totalled \$22,500,000.

(vi) In 1969 the Company contracted to supply coal to Canadian Utilities, Limited, to provide its requirements for fuel of contract specification at its thermal power generating plant at Smoky River, Alberta, for a period of 15 years commencing December 1972 at a price of approximately 32¢ per long ton. That contract is renewable at the option of the purchaser at a nominal price for a further 15 years.

Alberta Power Limited, the assignee of Canadian Utilities, in 1973 commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of \$804,000 for costs allegedly incurred by it in connection with the supply and use of coal supplied by the Company to December 31, 1973, and requesting certain declaratory and injunctive relief. The Company is defending the action. In the opinion of Counsel, the plaintiff will not be successful in obtaining judgment for the amount of damages claimed or in obtaining an injunction. No provision therefor has been made in the accounts.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced in 1971, that there will not be sufficient amounts of specification by-product coal available to fulfill the requirements of Alberta Power. The Company is presently delivering by-product coal to Alberta Power on a month to month basis, at cost, and the parties are jointly investigating the technical and economic feasibility of utilizing all of the by-product coal produced by the Company from its Smoky River operation as a step towards the long-term rationalization of the power plant's fuel requirements.

(vii) Pension costs for the year, including past service costs, were \$324,000 (1974 \$242,000).

Total unfunded past service liability at December 31, 1975 was \$743,000 of which \$419,000 related to improvements in plan benefits made in 1975. This liability is being amortized by annual payments of \$97,000 to 1979 with decreasing amounts thereafter to 1990.

(viii) Anti-Inflation Program —

The Company is subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. At this time there are a number of uncertainties concerning implementation of the program so that the impact on the Company's future operations cannot be accurately determined. The Company has used its best efforts to comply with the guidelines since their announcement.

12. Capital Stock

175,000 shares have been set aside under the Executive and Key Employees Stock Option Plan. Of these, 135,450 had been issued to December 31, 1975.

Options outstanding at December 31, 1975 were:

10,000 shares at \$41.80 per share granted January 25, 1973 and expiring January 24, 1983.

13. Remuneration of Directors and Senior Officers

Aggregate remuneration paid to directors and senior officers was \$420,000 which compares with the 1974 remuneration total of \$470,000.

FIVE YEAR SUMMARY

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
Production					
Raw coal (long tons) (a)	2,588,309	2,358,357	2,086,667	2,432,376	1,831,491
Clean coal (long tons) (a)	1,680,068	1,528,268	1,441,535	1,565,720	1,178,197
Copper (pounds) (b)	—	—	8,372,000	9,297,000	9,556,000
Gold (ounces) (b)	—	—	68,548	104,079	108,728
Earnings (\$000's omitted)	\$	\$	\$	\$	\$
Revenue — coal production (a)	95,736	48,093	30,455	28,974	20,821
— metal production (b)	—	273	12,979	10,654	9,411
Dividends from affiliates	2,277	5,324	2,875	1,848	5,055
Interest and other income	—	—	—	569	671
Exploration	1,980	1,242	881	1,204	1,481
Interest expense	3,778	5,631	4,716	3,899	3,758
Depreciation	4,493	3,462	3,729	3,551	2,846
Amortization of deferred development	2,993	1,030	1,219	1,352	824
Income taxes	6,029	—	—	—	(1,160)
Earnings (loss) from operations	12,788	5,873	(952)	(8,117)	(3,061)
Equity (reduction) in undistributed earnings of affiliates	(1,279)	6,445	16,625	103	(3,096)
Extraordinary credits (losses)	6,029	—	6,105	(22,056)	—
Consolidated earnings (loss)	17,538	12,318	21,778	(30,070)	(6,157)
Per share (c)	\$7.40	\$5.20	\$9.19	(\$12.75)	(\$2.61)
Dividends paid	1,184	—	—	—	1,887
Per share (c)	\$0.50	—	—	—	\$0.80
Financial Position (\$000's omitted)					
Working capital (deficiency)	(3,656)	13,690	3,114	1,548	8,863
Investments	116,494	117,745	111,607	92,522	110,908
Properties and plant	78,960	71,048	60,587	67,763	70,088
Coal sales contract advances	7,229	12,416	—	—	—
Long-term debt	40,203	62,323	59,403	65,701	62,734
Shareholders' equity	150,454	134,100	121,782	99,586	129,656
Per share (c)	\$63.51	\$56.61	\$51.41	\$42.22	\$54.96
Shareholders and Employees — December 31					
Total shares outstanding	2,434,482	2,434,482	2,434,482	2,424,482	2,424,482
Shareholders	2,819	3,039	3,049	3,042	2,941
Employees	850	724	491	1,424	1,466

(a) Includes tonnage produced in preproduction period prior to April 1, 1971.

(b) Schumacher Mine sold November 27, 1973.

(c) Per share figures calculated on the basis of total shares outstanding, less equity in own shares held by affiliate.



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